

# Shareholder's Instructions for Schedule K-1 (100S)

## For S Corporation Shareholder's Use Only

References in these instructions are to the Internal Revenue Code (IRC) as of January 1, 2005, and to the California Revenue and Taxation Code (R&TC).

### What's New

S Corporations are required to report withholding payments from the S Corporation that are allocated to all shareholders, as well as payments withheld-at-source on nonresident shareholders. For taxable years beginning on or after January 1, 2006, the total withholding amount is reported on Schedule K-1 (100S), line 13.

### General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, go to our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

For taxable years beginning on or after January 1, 2002, California no longer allows a federal S corporation to elect to be a California C corporation. Therefore, for the taxable year beginning in 2002, and thereafter, any corporation with a valid federal S corporation election is considered an S corporation for California purposes. The effective date of the election is the first day of the corporation's taxable year beginning in 2002.

Corporations that elect to be an S corporation for federal purposes on or after January 1, 2002, and have a California filing requirement are deemed to make the California S election on the same date as the federal election.

For taxable years beginning on or after January 1, 2002, a group nonresident return for shareholders of an S corporation may be filed with one nonresident individual shareholder.

For taxable years beginning on or after January 1, 2004, 100% of the Net Operating Loss (NOL) may be carried forward. For more information, see form FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Corporations.

For taxable years beginning on or after January 1, 2002, the NOL allowed in computing the California taxable income of a nonresident or part-year resident is no longer limited by the amount of NOLs from all sources. Only your California sourced income and losses are considered in determining if you have a California NOL. For more information, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency, and form FTB 3805V, Net Operating Loss (NOL) Computation and NOL Disaster Loss Limitations – Individuals, Estates, and Trusts.

California law has not conformed to federal law regarding the additional 30% or 50% first-year depreciation allowance for qualified property.

California has conformed to the federal Job Creation Act of 2002 provision that affects discharge of indebtedness of an S corporation. This provision provides that income from the discharge of indebtedness of an S corporation that is excluded from the S corporation's income is not taken into account as an item of income by any shareholder and thus does not increase the basis of any shareholder's stock in the corporation. This provision would apply for California purposes to discharges of indebtedness after December 31, 2001, in taxable years ending after that date. The provision would not apply to any discharge of indebtedness before March 1, 2002, pursuant to a plan of reorganization filed with a bankruptcy court on or before October 11, 2001.

For taxable years beginning on or after January 1, 2003, California will follow the revised federal instructions (**with some exceptions**) for reporting the sale, exchange, or disposition of an asset for which an IRC Section 179 expense deduction was claimed in prior years by a partnership, limited liability company, or S corporation.

Shareholders should follow federal reporting requirements as detailed in federal Form 1120S, U.S. Income Tax Return for an S Corporation, federal Form 4797, Sale of Business Property, and instructions.

As of January 1, 2005, California conforms to the federal's modification to the qualification requirements of S corporations and their shareholders.

### A Purpose

The S corporation uses Schedule K-1 (100S) to report your share of the S corporation's income, deductions, credits, etc. Information from the Schedule K-1 (100S) should be used to complete your California tax return. Please keep a copy of Schedule K-1 for your records. However, do not file the schedule with your California tax return.

Although the S corporation is subject to various taxes, you are liable for the income tax on your share of the S corporation's income, whether or not distributed, and you must include your share on your California tax return.

The amount of losses and deductions that you may claim on your tax return may be less than the amount reported on Schedule K-1 (100S). Generally, the amount of losses and deductions you may claim is limited to your basis in the S corporation stock, debt owed to you by the S corporation, and the amount for which you are considered at-risk. Also, if the S corporation has losses, deductions, or credits from a passive activity, you must apply the passive activity rules. It is your responsibility to consider and apply any applicable limitations. See General Information C, Limitations on Losses, Deductions, and Credits. Use these instructions to help you report the items shown on Schedule K-1 (100S) on your California tax return.

For the line items where "attach schedule" appears, the S corporation should have provided additional information applicable to that line or the S corporation should have made an entry on Schedule K-1 (100S) Side 2, line 23.

A nonresident shareholder of an S corporation that is doing business in California may qualify to file a group nonresident tax return on Long Form 540NR, California Nonresident or Part-Year Resident Income Tax Return. For more information on filing a group nonresident tax return, get FTB Pub. 1067, Guidelines for Filing a Group Form 540NR.

### B Reporting Information from Columns (c), (d), and (e)

#### Inconsistent treatment of items

Generally, shareholders must report IRC subchapter S items shown on their Schedule K-1 (100S), and any attached schedules, the same way the corporation treated the items on its tax return. If the treatment on a shareholder's original or amended tax return is inconsistent with the corporation's treatment, or if the corporation has not filed a tax return, you must attach a statement with your original or amended tax return to identify and explain any inconsistency or to note that a corporate tax return has not been filed. If a shareholder is required to attach this statement but fails to do so, the shareholder may be subject to an accuracy related penalty.

#### Line 1 through Line 22

If you are an individual shareholder, take the amounts in column (c) that are from nonpassive activities and enter these amounts on the appropriate California form or schedule as explained in these instructions.

Report the amounts in column (d) or column (e) that are from passive activities on the California form or schedule where they are normally reported. Bring the total amounts figured on the appropriate California form or schedule to form FTB 3801, Passive Activity Loss Limitations, to figure the amount of your passive activity loss limitation. Then transfer the passive activity loss back to the form or schedule it is normally reported on to figure your California adjustment amount. Enter this adjustment amount on the corresponding line of Schedule CA (540 or 540NR), California Adjustments, or Form 541, California Fiduciary Income Tax Return.

If there is no California schedule or form to figure your passive activity loss adjustment amount on (i.e., rental loss from passive activities), you may figure the adjustment amount on the California Adjustment Worksheet in the instructions for form FTB 3801. Enter the total of your adjustments from all passive activities from line 1 and line 2 of this worksheet on Schedule CA (540 or 540NR), as applicable.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations, such as the at-risk rules, these carryforward losses, deductions, and credits may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior year amounts with any amounts shown on this Schedule K-1 (100S) to get a net figure to report on any supporting schedules, statements, or forms attached to your tax return. Instead, report the amounts on an attached schedule, statement, or form on a year-by-year basis.

### C Limitations on Losses, Deductions, and Credits

The amounts shown on line 1 through line 3 reflect your share of income or loss from the S corporation's business or rental operations without reference to your limitations on losses or adjustments that may be required because of:

- The adjusted basis of your S corporation ownership interest per IRC Section 1366(d);
- The amount for which you are at-risk as determined under IRC Section 465; and
- The passive activity limitations of IRC Section 469.

See the instructions for federal Schedule K-1 (Form 1120S) line 1 through line 3 for more information.

#### **Basis rules**

Generally, you may not claim your share of the S corporation loss (including capital loss) that is greater than the adjusted basis of your shareholder interest at the end of the S corporation's taxable year.

Basis is increased by:

1. All income (including tax-exempt income) reported on Schedule K-1 (100S).
2. Money and adjusted basis of property contributed to the corporation.
3. The excess of the deduction for depletion over the adjusted basis of the property subject to depletion.

Basis is decreased by:

1. Fair market value of property distributions (including cash) made by the corporation (excluding dividend distributions reported on Form 1099-DIV and distributions in excess of basis) reported on Schedule K-1 (100S), line 21.
2. All losses and deductions (including nondeductible expenses) reported on Schedule K-1 (100S).

These items are not a complete list of factors that determine basis. For examples, please see Treas. Reg. Section 1.1367-1.

#### **At-risk rules**

Generally, if you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the corporation; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your tax return. For California purposes, you must complete federal Form 6198 using California amounts.

The at-risk rules generally limit the amount of loss (including loss on disposition of assets) and other deductions (such as IRC Section 179 or R&TC Sections 17267.2, 17267.6, and 17268 deductions) that you may claim to the amount you could actually lose in the activity. See the instructions for federal Schedule K-1 (Form 1120S), At-Risk Limitations, for more information.

#### **Passive activity limitations**

Generally, California tax law conforms to federal IRC Section 469 rules that limit the deduction of certain losses and credits.

These rules apply to shareholders who:

- Are individuals, estates, or trusts; and
- Have a loss or credit from a passive activity.

A passive activity is generally a rental activity or a trade or business activity in which the shareholder does not materially participate.

If you have a loss or deductions from a passive activity, you will need to complete form FTB 3801 to figure the allowable amounts to report on your individual tax return. You will also need to complete form FTB 3801 if you have passive activity income from this S corporation and passive activity loss or deduction from another source.

The amounts reported on Schedule K-1 (100S), line 2 and line 3 are from rental activities of the S corporation and are generally passive activity income (loss) to all shareholders.

There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The S corporation will identify any of these qualified amounts on an attachment for line 2.

**Note:** Passive activity credits are also limited to passive income. See the instructions for line 12d.

**Caution:** During 1993, the U.S. Congress made changes to the passive activity loss provisions of the IRC relating to real estate professionals. California has not conformed to those changes.

## **D California Adjustment — Column (c)**

Use this column to account for your proportionate share of the differences in the computation of federal and California income.

The most common adjustment items are:

- California minimum franchise tax;
- Depreciation expense due to different basis of the assets or depreciation method used;
- Gain or loss on sale of assets due to the effects of different depreciation methods or basis; and
- Government bond interest income:
  - a) U.S. bond interest is taxable for federal purposes but not for California purposes; and
  - b) State bond interest (other than from California bonds) is taxable for California purposes but not for federal purposes.

## **E Total amounts using California law – column (d) and California source amounts and credits – column (e)**

Shareholders who are California residents will use amounts shown in column (d) because California resident individuals are subject to personal income tax on all income from whatever source derived (R&TC Section 17041). Nonresident shareholders who do not conduct a trade or business that is unitary with the S corporation should use the amounts in column (c), column (d) (for total income purposes), column (e) (for California source income purposes), and Table 1. If the nonresident shareholder conducts a unitary business with the S corporation, data in column (e) should not be used. Instead, the shareholder must combine its share of the S corporation's income with the income from its trade or business and apportion that income using an apportionment percentage consisting of a combination of the factors from its trade or business and the shareholder's share of the factors from the S corporation from Table 2. Amounts in Table 1 should be sourced to the residency or commercial domicile of the shareholder.

## **Specific Line Instructions**

The Internal Revenue Service (IRS) revised the federal Schedule K-1 (1120S). As a result of the revision, the federal Schedule K-1 (1120S) and California Schedule K-1 (100S) line items are no longer in agreement.

When preparing the California Schedule K-1 (100S), be sure to transfer the appropriate amounts from the federal Schedule K-1 (1120S). Refer to the

**Specific Line Instructions** when completing California Schedule K-1 (100S).

## **Income (Loss)**

### **Line 1 – Ordinary income (loss) from trade or business activities**

The amount reported on line 1, column (d) or column (e) is your share of the ordinary income (loss) from the trade or business activities of the S corporation. Generally, where you report this amount on Form 540, Long Form 540NR, or Form 541 depends on whether or not the amount is from an activity that is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this S corporation or from any other source, report the line 1, column (d) or column (e) income on form FTB 3801.

If a loss is reported on line 1, column (d) or column (e), report the loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable.

### **Line 2 – Net income (loss) from rental real estate activities**

Generally, the income (loss) reported on line 2, column (d) or column (e), is a passive activity amount to all shareholders. However, there is an exception for losses from a qualified low-income housing project. The loss limitations do not apply to qualified investors in a qualified low-income housing project. The S corporation will have attached a schedule for line 2 to identify such amounts, if applicable. Enter the California adjustment amount from column (c) on Schedule CA (540 or 540NR), as applicable.

Use the following instructions to determine where to enter a line 2 amount.

- If you have a loss on line 2, column (d) or column (e) (other than a qualified low-income housing project loss), enter this passive activity loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable.

**Note:** If you are a qualified investor reporting a qualified low-income housing project loss, enter the California adjustment amount from column (c) directly on Schedule CA (540 or 540NR), as applicable.

- If you have income on line 2, column (d) or column (e) and no passive losses, enter the California adjustment from column (c) on Schedule CA (540 or 540NR), as applicable.

### **Line 3 – Net income (loss) from other rental activities**

The amount on line 3, column (d) or column (e) is a passive activity amount for all shareholders.

- If line 3, column (d) or column (e) is a loss, enter the loss on the applicable line of form FTB 3801.
- If income is reported on line 3, column (d) or column (e) and you have no passive losses, enter the California adjustment from column (c) on Schedule CA (540 or 540NR), as applicable.

### **Line 4 – Portfolio income (loss)**

- Enter the amount of interest income from federal Schedule K-1 (1120S), box 4.
- Enter the amount of dividend income from federal Schedule K-1 (1120S), box 5a and 5b.
- Enter the amount of royalties from federal Schedule K-1 (1120S), box 6.
- Enter the amount of net short-term capital gain (loss) from federal Schedule K-1 (1120S), box 7.
- Enter the amount of net long-term capital gain (loss) from federal Schedule K-1 (1120S), box 8a.
- Enter the amount of other portfolio income (loss) from federal Schedule K-1 (1120S), box 10.

Income (loss) referred to as "portfolio" income (loss) in these instructions is not part of a passive activity subject to the rules of IRC Section 469.

Portfolio income includes income not derived in the ordinary course of a trade or business from interest, dividends, annuities, or royalties and gain (loss) on the sale of property that produces these types of income or is held for investment. If you have amounts on Schedule K-1 (100S), line 4a through line 4f, report these amounts as follows:

- Enter line 4a, column (c) and/or column (e) on Schedule CA (540 or 540NR), line 8, whichever column is applicable;
- Enter line 4b, column (c) and/or column (e) on Schedule CA (540 or 540NR), line 9, whichever column is applicable;
- Enter line 4c, column (c) and/or column (e) on Schedule CA (540 or 540NR), line 17, whichever column is applicable;
- Enter line 4d and line 4e, column (d) or column (e) on Schedule D; and
- Enter line 4f, column (d) or column (e) on the applicable schedule.

**Caution:** Generally, amounts reported on line 4d and line 4e are gains or losses attributable to the disposition of property held for investment and are therefore classified as portfolio income (loss). If, however, an amount reported on line 4d or line 4e, column (d) or column (e), is a passive activity amount, the S corporation should identify the amount.

The S corporation uses line 4f, column (d) or column (e), to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. A statement will be attached to tell you what kind of portfolio income is reported on line 4f, column (d) or column (e).

#### **Line 5 – Net gain (loss)**

Enter the amount of net Section 1231 gain (loss) from federal Schedule K-1 (1120S), box 9.

If the amount on line 5 relates to a rental activity, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount to you, report it on Schedule D-1, Sales of Business Property, line 2, column (g). You do not have to complete the information called for in column (b) through column (f). Write "From Schedule K-1 (100S)" across these columns.
- If a gain is reported on line 5, column (d) or column (e), and it is a passive activity amount to you, report the gain on Schedule D-1, line 2, column (g), and refer to "Passive Loss Limitations" in the instructions for Schedule D-1.
- If a loss is reported on line 5, column (d) or column (e) and it is a passive activity amount to you, report the loss on Schedule D-1, line 2, column (g), and refer to "Passive Loss Limitations" in the instructions for Schedule D-1. You will need to use form FTB 3801 to determine how much of the loss is allowed on Schedule D-1.

#### **Line 6 – Other income (loss)**

Enter the amount of other income (loss) from federal Schedule K-1 (1120S), box 10.

Amounts on this line are other items of income, gain, or loss not included on line 1 through line 5. The S corporation should give you a description of your share for each of these items.

Report income or gain items that are passive activity amounts to you as instructed below. If, in addition to this passive activity income or gain, you have passive activity losses from any other source, also report the passive activity income or gain on form FTB 3801.

Line 6 items may include the following:

- S corporation gains from the disposition of farm recapture property (refer to Schedule D-1) and other items to which IRC Section 1252 applies;
- Recovery of bad debts, prior taxes, and delinquency amounts (IRC Section 111). Report the amount from line 6, column (c), on Schedule CA (540 or 540NR), line 21, whichever column is applicable;
- Gains and losses from gambling, IRC Section 165(d);
- Any income, gain, or loss to the S corporation under IRC Section 751(b) from a partnership. Report this amount on Schedule D-1, line 10;
- Specially allocated ordinary gain (loss) from a partnership. Report this amount on Schedule D-1, line 10;
- Net gain (loss) from involuntary conversions due to casualty or theft. The S corporation will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, line 37, column (b)(i), column (b)(ii), and column (c);
- Net short-term capital gain or loss, net long-term capital gain or loss, gain or loss from Schedule D (100S) that is **not** portfolio income (e.g., gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the S corporation);

- Any new gain or loss from IRC Section 1256 contracts; and
- Eligible gain from the sale or exchange of qualified small business stock (as defined in R&TC Section 18152.5). The S corporation should also give you the name of the corporation that issued the stock and your pro-rata share of the basis of that stock.

## **Deductions**

#### **Line 7 – Charitable contributions**

Enter the amount of charitable contributions from federal Schedule K-1 (1120S), box 12.

The S corporation will give you a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. Refer to the federal instructions for Form 1040 for more information.

If there is an amount on Schedule K-1 (100S), line 7, column (c), enter this amount on Schedule CA (540 or 540NR), line 39.

#### **Line 8 – Expense deduction for recovery property**

Enter the amount of Section 179 deduction from federal Schedule K-1 (1120S), box 11.

The maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you may claim from all sources is \$25,000. The S corporation will give you information on your share of the cost of the S corporation's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all your trades or businesses. See form FTB 3885A, Depreciation and Amortization Adjustments, and federal Publication 534, Depreciating Property Placed in Service Before 1987, for more information.

If the S corporation reported an EZ, TTA, or LAMBRA business expense deduction on this line from R&TC Sections 17267.2, 17267.6, or 17268, complete form FTB 3805Z, form FTB 3809, or form FTB 3807, to report your pro-rata share.

#### **Line 9 – Deductions related to portfolio income (loss)**

Enter the amount of deductions related to portfolio income (loss) from federal Schedule K-1 (1120S), box 12.

Amounts entered on this line are the expenses (other than investment interest expense and expenses from a REMIC) paid or incurred to produce portfolio income. If you have an amount on Schedule K-1 (100S), line 9, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR). However, if any of the line 9 amount should not be reported on Schedule CA (540 or 540NR), the S corporation will identify that amount for you.

#### **Line 10 – Other deductions**

Enter the amount of other deductions from federal Schedule K-1 (1120S), box 12.

Amounts on this line are other deductions not included on line 7 through line 9. If there is an amount on Schedule K-1 (100S), line 10, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

## **Investment Interest**

#### **Line 11a and Line 11b**

If the S corporation paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and federal Publication 550, Investment Income and Expenses.

#### **Line 11a – Interest expense on investment debts**

Enter the amount from column (d) or column (e) on form FTB 3526 along with your investment

interest expense from other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

#### **Line 11b(1) and Line 11b(2) – Investment income and investment expenses**

Use the column (d) or column (e) amounts on these lines to determine the amount to enter on form FTB 3526, line 4a and line 5.

**Caution:** The amounts shown on line 11b(1) and line 11b(2) include only investment income and expenses included on lines 4a, 4b, 4c, 4f, and line 9 of this Schedule K-1 (100S). The S corporation should attach a schedule that shows you the amount of any investment income and expenses included in any other lines of your Schedule K-1 (100S). Use these amounts, if any, to adjust line 11b(1) and line 11b(2) to determine your total investment income and total investment expenses from this S corporation. Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 4a and line 5.

## **Credits**

The S corporation must provide the information you need to compute a credit allowable on your tax return.

#### **Line 12a – Low-income housing credit**

Your share of the S corporation's low-income housing credit is shown on line 12a, column (d) or column (e). Any available credit is entered on form FTB 3521, Low-Income Housing Credit. To claim this credit, attach a copy of form FTB 3521 to your tax return.

**Caution:** You may not claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under Section 502 of the federal Tax Reform Act of 1986. Also, the passive activity credit limitations of IRC Section 469 may limit the amount of credit you may take. Get form FTB 3801-CR, Passive Activity Credit Limitations, to figure the amount of credit that may be limited under the passive activity rules.

For more information, see the instructions for line 12d.

#### **Line 12b – Credits related to rental real estate activities**

If applicable, the S corporation may use this line, through an attached schedule, to give you the information you need to compute credits related to rental real estate activities other than the low-income housing credit.

For more information, see the instructions for line 12d.

#### **Line 12c – Credits related to other rental activities**

If applicable, the S corporation will use this line, through an attached schedule, to give you the information you need to compute credits related to rental activities other than rental real estate activities.

For more information, see the instructions for line 12d.

#### **Line 12d – Other credits**

If applicable, the S corporation will use this line, through an attached schedule, to give you the information you need to compute credits related to a trade or business activity.

Credits that may be reported on line 12c or line 12d (depending on the type of activity they relate to) include but are not limited to:

- Enterprise Zone (EZ) hiring & sales or use tax credit (FTB 3805Z);
- Targeted Tax Area (TTA) hiring & sales or use tax credit (FTB 3809);
- Local Agency Military Base Recovery Area (LAMBRA) hiring & sales or use tax credit (FTB 3807);

- Research credit (FTB 3523); or
- Manufacturing Enhancement Area (MEA) hiring credit (FTB 3808).

**Note:** The pass-through rules of IRC Section 1366, the at-risk limitations of IRC Section 465, and the passive activity limitations of IRC Section 469 may limit the amount of credits that you may take. Credits on line 12 may be passive activity credits to shareholders who do not materially participate in the activities of the S corporation.

Passive activity credits are limited to tax attributable to passive activities income. If you do not materially participate in the activity of the S corporation, get form FTB 3801-CR, Passive Activity Credit Limitations, to determine the amount of the credit you may take.

#### Line 13 – Total withholding

Line 13 includes withholding from payments made to the S Corporation allocated to all shareholders based on their stock ownership and payments withheld on nonresident shareholders. Schedule K-1 may not be used to claim the withholding credit.

## Adjustments and Tax Preference Items

#### Line 14a through Line 14e

Use the information reported on line 14a through line 14e (as well as adjustments and tax preference items from other sources) to prepare Schedule P (540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations.

For more information, get federal Schedule K-1 (Form 1120S), instructions for Adjustments and Tax Preference Items.

## Other State Taxes

#### Line 15a through Line 15e

You may claim a credit against your individual tax for your share of net income taxes paid by the S corporation to certain other states which either impose a tax on the S corporation or do not recognize S corporation status. For purposes of this credit, net income taxes include your share of taxes on, according to, or measured by income.

Residents are taxed on their pro-rata share of all income and generally receive a credit for taxes paid to other states. Nonresidents and part-year residents use column (e) for your pro-rata share of California source pass-through income.

For more information, get California Schedule S, Other State Tax Credit.

## Other

**Note:** Amounts on line 16a through line 22 may not necessarily be California source amounts. However, enter the same amount in column (e) as entered in column (d).

#### Line 16a through Line 19

Refer to the instructions for federal Schedule K-1 (1120S).

#### Line 20

The S corporation must issue a federal Form 1099-DIV to you for this distribution. Report this amount as a taxable dividend on your tax return.

#### Line 21

Reduce your basis in stock of the S corporation by the fair market value of the distributions on line 21. If these distributions exceed your basis in stock, the excess is treated as gain from the sale or exchange of property and is reported on Schedule D.

#### Line 22

If the line 22 payments are made on indebtedness with a reduced basis, the repayments result

in income to you to the extent the repayments are more than the adjusted basis of the loan. See IRC Section 1367(b)(2) for information on reduction in basis of a loan and restoration of basis of a loan with a reduced basis. See federal Revenue Ruling 68-537, 1968-2 C.B. 372, for more information.

## Supplemental Information

#### Line 23

The S corporation will provide supplemental information required to be reported to you on this line. If the S corporation is claiming tax benefits from an EZ, LAMBRA, TTA, or MEA, it will give you your pro-rata share of (1) business income apportioned to the EZ, LAMBRA, MEA, or TTA, and (2) business capital gains and losses included in (1) on this line. Get form FTB 3805Z, FTB 3807, FTB 3808, or FTB 3809 to claim any applicable credit or business expense deduction.

The S corporation may have provided an amount showing your proportionate interest in the S corporation's aggregate gross receipts, less returns and allowances on Schedule K-1 (100S), line 23. Legislation enacted in 1996 allows a **qualified taxpayer** to exclude from alternative minimum taxable income adjustments and items of tax preference attributable to any trade or business. A "qualified taxpayer" is defined as an individual, estate, or trust that:

- Is the owner of, or has an ownership interest in a trade or business; **and**
- Has aggregate gross receipts, less returns and allowances, of less than \$1,000,000 from **all** trades or businesses that the taxpayer is an owner of, or has an ownership interest in, in the amount of that taxpayer's proportionate interest in each trade or business.

"Aggregate gross receipts, less returns and allowances" means the sum of the gross receipts of the trades or businesses which you own and the proportionate interest of the gross receipts of the trades or businesses which you own and of pass-through entities in which you hold an interest.

"Proportionate interest" is defined as:

- In the case of a pass-through entity which reports a profit for the taxable year, your profit interest in the entity at the end of your taxable year.
- In the case of a pass-through entity which reports a loss for the taxable year, your loss interest in the entity at the end of your taxable year.
- In the case of a pass-through entity which is sold or liquidates during the taxable year, your capital account interest in the entity at the time of the sale or liquidation.

"Proportionate interest" includes an interest in a pass-through entity including a partnership, S corporation, regulated investment company, real estate investment trust, or real estate mortgage investment conduit.

For purposes of R&TC Section 17062(b)(4), "gross receipts" means the sum of gross receipts from the production of business income, within the meaning of subdivisions (a) and (c) of R&TC Section 25120, and the gross receipts from the production of non-business income, within the meaning of subdivision (d) of R&TC Section 25120. "Proportionate interest" includes an interest in a pass-through entity. See R&TC Section 17062 for more information.

The pro-rata share of gain or loss on property subject to the IRC Section 179 expense deduction recapture should be reported on the Schedule K-1 (100S) as supplemental information. Follow

the instructions on the federal Form 4797 and federal Schedule K-1 (1120S) for the reporting requirements.

If the S corporation listed any credit recapture on this line, see your tax booklet for information on how to report the credit recapture.

#### Table 1

The income data contained in Table 1 is not reflected in column (e) because the source of such income must be determined at the shareholder level. The shareholder must make a determination whether the nonbusiness intangible income item is from a California source.

Net nonbusiness income is computed by subtracting related nonbusiness expenses from the nonbusiness income.

#### Table 2

If the shareholder and S corporation are engaged in a single unitary business, the shareholder's share of the S corporation's business income is entered on Table 2, Part A. The shareholder will then add that income to its own business income and apportion the combined business income.

The shareholder's share of the S corporation's payroll, property, and sales data is in Table 2, Part C. The business income in Table 2, Part A is combined with the taxpayer's other business income from the unitary business. The apportionment numerator and denominator data are added to the appropriate numerator and denominator of the shareholder's payroll, property, and sales factors.